

**THE UNDER SECRETARY OF DEFENSE
3010 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-3010**

November 20, 1997

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
CHAIRMAN OF THE JOINT CHIEFS OF STAFF
UNDER SECRETARY OF DEFENSE (COMPTROLLER)
ASSISTANT SECRETARY OF DEFENSE (COMMAND,
CONTROL, COMMUNICATIONS AND INTELLIGENCE)
GENERAL COUNSEL OF THE DEPARTMENT OF DEFENSE
INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE
DIRECTOR, OPERATIONAL TEST AND EVALUATION
COMMANDER IN CHIEF, SPECIAL OPERATIONS COMMAND
DIRECTORS OF THE DEFENSE AGENCIES

SUBJECT: Collection of Past Performance Information in the Department of Defense

Collection of Past Performance Information (PPI) is critical to using this information to obtain best value goods and services. With the support of the Component Acquisition Executives, the Past Performance Integrated Product Team (IPT) was chartered to develop a uniform management approach for the collection and use of PPI. This IPT tackled one of the most difficult issues we face in reforming the acquisition process. I commend the team, and the supporting Working-Level Integrated Product Teams composed of representatives from the components, for a job well done. The IPT developed a management approach, policies and an implementation plan which outlines the tasks necessary to achieve this objective.

The policy contained in the attachment to this memorandum is a solid beginning and is effective February 1, 1998. Collection should begin manually unless an existing automated system is available. Your leadership is critical to successful implementation of this reform. Your active participation in establishing the environment for successfully implementing this change is essential. Please take immediate action to implement this policy. The past performance IPT will continue to serve as the coordinator of Department policy during this implementation period. The Deputy Under Secretary of Defense (Acquisition Reform), with the support of the IPT, shall ensure development of joint Department of Defense (DoD) training materials and education programs for use by the components in training the workforce.

Automation of collection and retrieval of PPI is critical to full implementation of this policy. The Deputy Under Secretary for Defense (Logistics), Life Cycle Information Integration Office is responsible for conducting an automated pilot effort to define the DoD interfaces to existing PPI systems and demonstrate an integrated past performance collection capability. The IPT will establish requirements for this pilot effort and develop recommendations for an overall automation architecture. I request that a status report on the pilot effort be provided to me by January 30, 1998. The proposed plan for an automated architecture, coordinated with the Standard Procurement System, should be presented to me by March 30, 1998. I expect the IPT to

monitor the implementation of this policy and recommend any necessary policy revisions to me by November 30, 1998.

The Director, Acquisition Program Integration shall take action to promulgate necessary amendments to DoD 5000.2R and the Acquisition Deskbook, and the Director, Defense Procurement shall promulgate Defense Federal Acquisition Regulation Supplement implementing procedures, as appropriate.

J.S. Gansler

Attachment
As stated

Policy Changes

This policy statement is a refinement of the current policies in the Federal Acquisition Regulation (FAR) Parts 15, 19, and 42, and the Defense Acquisition Regulation Supplement (DFAR) Part 36. DoD components shall use, without authority to deviate, the assessment elements and ratings described below.

Collection of Past Performance Information By Business Sector

DoD shall collect PPI using a consistent management approach across the designated business sectors. This approach shall include tailored dollar thresholds, consistent elements used to assess contractors, or other government agencies, and consistent ratings applied to those elements. DoD's business sectors are defined below and categorized under the heading of either key or unique.

Key Business Sectors

Systems - Generally, this sector includes products that require a significant amount of new engineering development work. Includes major modification/upgrade efforts for existing systems, as well as acquisition of new systems, such as aircraft, ships, etc. Also includes program budget account code 6.4-funded projects. More specifically:

Aircraft: Includes fixed and rotary wing aircraft and their subsystems (propulsion, electronics, communications, ordnance, etc.)

Shipbuilding: Includes ship design and construction, ship conversion, small craft (e.g., rigid inflatable boats) and associated contractor-furnished equipment, as well as ship overhaul and repair.

Space: Includes all satellites (communications, early warning, etc.), all launch vehicles, strategic ballistic missiles, and all associated subsystems, including guidance and control.

Ordnance: Includes all artillery Systems (except non-Precision Guided Munition (PGM) projectiles), tactical missiles (air-to-air, air-to-ground, surface-to-air, and surface-to-surface) and their associated launchers, and all PGM weapons and submunitions, such as the Joint Direct Attack Missile, the Sensor-Fuzed Weapon and the "Brilliant Antitank" weapon (BAT).

Ground Vehicles: Includes all tracked combat vehicles (e.g., tanks and armored personnel carriers), wheeled vehicles (e.g., trucks, trailers, specialty vehicles), and construction and material handling equipment requiring significant new engineering development. Does not include commercial equipment typically acquired from existing multiple award "schedule" contracts (e.g., staff cars, base fire trucks, etc.)

Training Systems: Generally, includes computer-based (or embedded) virtual and synthetic environments and systems of moderate to high complexity capable of providing training for air, sea, and land based weapons, platforms, and support systems readiness. Does not include operation and maintenance support services beyond the scope of the initial training system acquisition, or basic and applied research in these areas.

Other Systems: Includes technologies and products that, when incorporated into other systems such as aircraft and ships, are often categorized as subsystems. However, many of these products are often acquired as systems in their own right, either as “stand-alone” acquisitions or as the object major modification/upgrade efforts for ships, aircraft, etc. Examples of other systems include Command, Control, Communication, Computer and Intelligence (C4I) systems, airborne and shipborne tactical computer systems, electrical power and hydraulic systems, radar and sonar systems, fire control systems, electronic warfare systems, and propulsion systems (turbine engines--aviation and maritime, diesel engine power installations--maritime and combat vehicle). Does not include tactical voice radios with commercial equivalents, personal Global Positioning Satellite (GPS) receivers, non-voice communication systems with commercial equivalents (See Operations Support and Information Technology sectors).

Services - Generally, this sector includes all contracted services except those which are an integral part of a Systems contract or related to "Science & Technology," "Construction & Architect-Engineering Services," "Information Technology", and "Health Care." Services are further defined below:

Professional/Technical & Management Support Services: Includes all consultant services--those related to scientific and technical matters (e.g., engineering, computer software engineering and development), as well as those related to organizational structure, human relations, etc. Includes office administrative support services (e.g., operation of duplication centers, temporary secretarial support, etc.). Does not include any basic or applied research that will result in new or original works, concepts or applications, but does include contract advice on the feasibility of such research, as well as evaluation of research results.

Repair & Overhaul: Services related to the physical repair and overhaul of aircraft, ground vehicles, etc., and any associated subsystems or components. Includes condition evaluations of individual items received for repair or overhaul, but does not include evaluations of the feasibility or the benefits of the overall project. Does not include Ship Repair and Overhaul, which is included in the Shipbuilding sector.

Installation Services: Includes services for grounds maintenance (grass cutting, shrubbery maintenance or replacement, etc.). Includes services related to cleaning, painting, and making minor repairs to buildings and utilities services, etc. Includes contracted security and guard services. Includes installation and maintenance of fencing. It also includes minor electrical repairs (e.g., replacing outlets, changing light bulbs, etc.), minor road surface repairs (patching cracks, filling in potholes, etc.), relocation of individual telephone lines and connections, snow removal (See "Construction" for the installation services covered by that sector.)

DoD Transportation System Services: Includes services related to transportation by all the land, water, and air routes, and transportation efforts which support movement of U.S. forces and their supplies during peacetime training, conflict, or war. Consists of those military and commercial efforts, services and systems organic to, contracted for, or controlled by the Department of Defense.

Information Technology - This sector includes any equipment or interconnected system or subsystem of equipment, that is used in the automatic acquisition, storage, manipulation, management, movement, control, display, switching, interchange, transmission or reception of

data or information. Generally, includes all computers, ancillary equipment, software, firmware and similar procedures, services (including support services), and related resources. Does not include any military-unique C4I systems and components included under Systems, such as JTIDS, Aegis, etc. More specifically:

Software: A set of computer programs, procedures, and associated documentation concerned with the operations of a data processing system; e.g., compilers, library routines, manuals and circuit diagrams. Information that may provide instructions for computers; data for documentation; and voice, video, and music for entertainment and education.

Hardware: Physical equipment as opposed to programs, procedures, rules and associated documentation. In automation, the physical equipment or devices forming a computer and peripheral components.

Telecommunications Equipment or Services: Circuits or equipment used to support the electromagnetic an/or optical dissemination, transmission, or reception of information via voice, data, video, integrated telecommunications transmission, wire, or radio. The equipment or service must be a complete component capable of standing alone. This includes the following type of items; telephones, multiplexers, a telephone switching system, circuit termination equipment, radio transmitter or receiver, a modem, card cage with the number and type of modem cards installed, etc. This does not include the following type of items: a chip, circuit card, equipment rack, power cord, a microphone, headset, etc.

Operations Support - Generally, this sector includes spares and repair parts for existing systems. Also includes products that require a lesser amount of engineering development work than “Systems,” or that can be acquired “build-to-print,” “non-developmental,” or commercial off the shelf. More specifically:

Mechanical: Includes transmissions (automotive and aviation), landing gear, bearings, and parts/components related to various engines (turbine wheels, impellers, fuel management and injection systems, etc.).

Structural: Includes forgings; castings; armor (depleted uranium, ceramic, and steel alloys); and steel, aluminum, and composite structural components. Does not include “bare” airframes, ships, or combat vehicles (i.e., without engines and electronics).

Electronics: Includes parts and components related to digitization, guidance and control, communications, and electro-optical and optical systems. Includes individual resistors, capacitors, circuit cards, etc., as well as “modules” such as radio-frequency receivers and transmitters. Includes tactical voice radios, personal Global Positioning System receivers, etc.

Electrical: Includes electric motors, thermal batteries, auxiliary power units, and associated spares and component parts.

Ammunition: Includes all small arms ammunition and non-Precision Guided Munitions artillery rounds.

Troop Support: Includes all food and subsistence items. Includes all clothing & textile-related items, including uniforms, tentage, personal ballistic protective gear, life preservation devices, etc. Includes all medical supplies and equipment, including medicines and diagnostic equipment (X-ray machines, etc.). Does not include any recreational or morale/welfare items.

Base Supplies: Includes all consumables and personal property items needed to maintain installations, bases, ports, etc. Includes small tools and cleaning and preservation equipment and supplies (paints, brushes, cleaning solvents, etc.). Does not include any grounds maintenance, construction, security, or other types of services.

Unique Business Sectors

Construction and Architect-Engineer and Health Care sectors assessment elements and ratings were previously established and remain unchanged by this policy. The Fuels sector shall use the assessment elements established for Services, Information Technology and Operations Support. No assessment elements have been established for the “Science and Technology” business sector that shall be tailored for each procurement. The Common DoD Assessment Rating System is mandatory for use by the Fuels, Science and Technology and Health Care business sectors.

Construction and Architect-Engineering - Includes all non-combat construction and related architect/construction engineering tasks. Includes construction of new buildings, foundation excavation, building/facility-wide upgrades to heating, ventilation and air conditioning systems, electrical systems, etc. Includes all road, dam and bridge construction, and complete road resurfacing. Does not, however, include minor repairs to road, driveway, or parking lot surfaces (e.g., patching cracks or filling in potholes). Also does not include repair or installation of any signage or pavement markings (painting divider lines, etc.). Does include major excavations (e.g., installation of new water mains or sewage systems, or major alteration of landscapes to improve drainage or to create or refurbish surface water storage facilities). Includes major alterations or repairs of installation-wide electrical power grids, trunk telephone lines, etc. Does not, however, include minor excavations related to the repair of individual pipes. Does not include the repair of individual power lines. Does not include the repair or relocation of individual telephone lines or connections. Also does not include services for building cleaning, painting, or minor repairs (fixing leaky pipes, replacing broken hinges, patching holes in plaster, etc.). Does not include any repair or installation of fencing or snow removal. Evaluate as required by DFARs Part 236. PPI is collected and used for acquisitions above \$25,000. USACE, Portland maintains two databases used throughout DoD and other federal agencies:

Architect-Engineer Contract Administration Support System (ACASS)
Construction Contractor Appraisal Support System (CCASS)

Health Care - Includes all acquisition and management of health care services. PPI is collected at all dollar thresholds; however collection and use are mandatory for acquisitions over \$100,000. The Health Care Acquisition Performance System (HCAPS), is currently used by the Navy and Army with assessment elements tailored to health care. This automated system is managed by Naval Sea Logistics Center Detachment, Portsmouth, NH.

Fuels - Includes all bulk fuels, lubricants, natural gas, coal, storage, and other commodities and related support services. PPI is collected and used at the dollar thresholds set forth in FAR Parts 15 and 42.

Science and Technology - Includes all contracted basic research and some applied research. Includes construction of “proof-of-principle” working prototypes. Includes projects funded by program budget accounts 6.1 (Basic Research), 6.2 (Exploratory Development), and 6.3 (Advanced Technology Development), but does not include projects funded by 6.4 accounts or similarly oriented appropriations. (Those projects are covered by the Systems sector).

For the Science and Technology sector, PPI shall be collected only at the time of the particular acquisition. No dollar threshold or the requirement to maintain an automated database has been established for this category. Collection of science and technology PPI shall be limited to relevant information as determined by the Source Selection team. Requests for PPI shall be tailored to each procurement during the source selection process with emphasis placed on the expertise of key personnel.

Key Business Sector Assessment Elements

Assessment Elements for the Systems Sector - DoD shall collect PPI on all contracts \$5,000,000 or more within the seven sub-sectors of the Systems Sector using the following Performance Assessment Review (PAR) elements:

TECHNICAL (QUALITY OF PRODUCT). This element is comprised of an overall rating and six sub-elements. Activity critical to successfully complying with contract requirements must be assessed within one or more of these sub-elements. The overall rating at the element level is the Program Manager's integrated assessment as to what most accurately depicts the contractor's technical performance or progress toward meeting requirements. It is not a predetermined roll-up of the sub-element assessments.

Product Performance - Assess the achieved product performance relative to performance parameters required by the contract.

Systems Engineering - Assess the contractor's effort to transform operational needs and requirements into an integrated system design solution.

Software Engineering - Assess the contractor's success in meeting contract requirements for software development, modification, or maintenance. Results from Software Capability Evaluations (SCEs) (using the Software Engineering Institute (SEI's) Capability Maturity Model (CMM) as a means of measurement), Software Development Capability Evaluations (SDCEs), or similar software assessments may be used as a source of information to support this evaluation.

Logistic Support/Sustainment - Assess the success of the contractor's performance in accomplishing logistics planning.

Product Assurance - Assess how successfully the contractor meets program quality objectives, e.g., producibility, reliability, maintainability, inspectability, testability, and system safety, and controls the overall manufacturing process.

Other Technical Performance - Assess all the other technical activity critical to successful contract performance. Identify any additional assessment aspects that are unique to the contract or that cannot be captured in another sub-element.

SCHEDULE - Assess the timeliness of the contractor against the completion of the contract, task orders, milestones, delivery schedules, administrative requirements, etc.

COST CONTROL - (Not required for Firm Fixed Price or Firm Fixed Price with Economic Price Adjustment) - Assess the contractor's effectiveness in forecasting, managing, and controlling contract cost.

MANAGEMENT - This element is comprised of an overall rating and three sub-elements. Activity critical to successfully executing the contract must be assessed within one or more of these sub-elements. This overall rating at the element level is the Program Manager's integrated assessment as to what most accurately depicts the contractor's performance in managing the contracted effort. It is not a predetermined roll-up of the sub-element assessments.

Management Responsiveness - Assess the timeliness, completeness and quality of problem identification, corrective action plans, proposal submittals (especially responses to change orders, ECPs, or other undefinitized contract actions), the contractor's history of reasonable and cooperative behavior, effective business relations, and customer satisfaction.

Subcontract Management - Assess the contractor's success with timely award and management of subcontracts, including whether the contractor met small/small disadvantaged and women-owned business participation goals.

Program Management and Other Management - Assess the extent to which the contractor discharges its responsibility for integration and coordination of all activity needed to execute the contract; identifies and applies resources required to meet schedule requirements; assigns responsibility for tasks/actions required by contract; communicates appropriate information to affected program elements in a timely manner. Assess the contractor's risk management practices, especially the ability to identify risks and formulate and implement risk mitigation plans. If applicable, identify and assess any other areas that are unique to the contract, or that cannot be captured elsewhere under the Management element.

Assessment Elements for the Services, Information Technology and Operations Support Sectors - DoD shall collect PPI using the following assessment elements within the Services, Information Technology and Operations Support sectors. The threshold for collection for Services and Information Technology shall be \$1,000,000 and more. For Operations Support, the collection threshold is \$5,000,000, however, under the \$5,000,000 threshold, buying activities should continue to accumulate contractor performance data from existing management information systems that already capture data on timeliness of delivery and quality of product or service. (Examples of such performance information collection Systems include "Red/Yellow/Green" and "Automated Best Value Method."). While passive systems may continue to be used, DoD wide implementation of collection and use of PPI through passive performance information collection systems is not mandatory until the collection system is automated across DoD.

QUALITY OF PRODUCT OR SERVICE - Assess the contractor's conformance to contract requirements, specifications and standards of good workmanship (e.g., commonly accepted technical, professional, environmental, or safety and health standards).

SCHEDULE - Assess the timeliness of the contractor against the completion of the contract, task orders, milestones, delivery schedules, administrative requirements (e.g. efforts that contribute to or effect the schedule variance)

COST CONTROL - (Not required for Firm Fixed Price or Firm Fixed Price with Economic Price Adjustment) - Assess the contractor's effectiveness in forecasting, managing, and controlling contract cost.

BUSINESS RELATIONS - Assess the integration and coordination of all activity needed to execute the contract, specifically the timeliness, completeness and quality of problem identification, corrective action plans, proposal submittals, the contractor's history of reasonable and cooperative behavior, customer satisfaction, timely award and management of subcontracts, and whether the contractor met small/disadvantaged and women-owned business participation goals.

MANAGEMENT OF KEY PERSONNEL (For Services and Information Technology Business Sectors Only) - Assess the contractor's performance in selecting, retaining, supporting, and replacing, when necessary, key personnel.

Common DoD Assessment Rating System

DoD components shall use the following assessment rating system in all business sectors on report cards for all PPI assessment elements with the exception of Construction and Architect-Engineering. A fundamental principle for rating is that contractors shall not be assessed below a rating of satisfactory for not performing beyond the requirement of the contract.

Exceptional. Performance meets contractual requirements and exceeds many to the Government's benefit. The contractual performance of the element or sub-element being assessed was accomplished with few minor problems for which corrective actions taken by the contractor were highly effective.

Very Good. Performance meets contractual requirements and exceeds some to the Government's benefit. The contractual performance of the element or sub-element being assessed was accomplished with some minor problems for which corrective actions taken by the contractor were effective.

Satisfactory. Performance meets contractual requirements. The contractual performance of the element or sub-element contains some minor problems for which corrective actions taken by the contractor appear or were satisfactory.

Marginal. Performance does not meet some contractual requirements. The contractual performance of the element or sub-element being assessed reflects a serious problem for which the contractor has not yet identified corrective actions. The contractor's proposed actions appear only marginally effective or were not fully implemented.

Unsatisfactory. Performance does not meet most contractual requirements and recovery is not likely in a timely manner. The contractual performance of the element or sub-element contains serious problem(s) for which the contractor's corrective actions appear or were ineffective.

New Refinements to FAR Part 15.3 & 42.15 Policies

Administrative Information: PPI assessments shall include the following administrative information: company name, place of performance, CAGE code, DUNS+4 number, telephone number, contract number, awarded value, award date, completion date, type of contract, extent competed, item description, Federal Supply Code (FSC), Standard Industry Classification code, key subcontractors and what effort they performed (for systems, information technology and services), DoD business sector, period of performance being assessed, assessment type (interim, final, or addendum), and contracting officer and program/requirements manager names and phone numbers.

DoD Assessment Inputs: DoD buying activities have primary responsibility for PPI collection and should ensure that PPI assessments provide for input from program managers, contracting officers, item PPI managers, and Defense Contract Management Command contract administration officers and Defense Contract Audit Agency auditors. Performance Assessment Reviews for systems will usually be completed by the program manager. Contractors shall be provided an opportunity to comment on past performance evaluations in accordance with the procedures set forth in FAR Parts 15 and 42. Contractor comments must be included as a part of the final report. Any disagreement between the DoD lead evaluator and the contractor must be reviewed at the next level above the Program or Item Manager, or Contracting Officer, as appropriate.

Narrative Rationales: Narrative rationales are required to support the report card assessment rating and help determine relevancy in support of future source selections.

Addendum Assessments: Addendum assessment reports may be prepared after the final past performance evaluation to record contractor's performance (e.g. contract closeout and other requirements).

Copies of Past Performance Assessments: A copy of the annual or final past performance evaluation shall be provided to the contractor as soon as it is finalized.

Evaluations of Orders Placed Against Other Contracts: To streamline PPI collection contracting officers should specify in the contract the frequency of, and the individual(s) responsible for, past performance assessments associated with orders to be placed against that contract.

Final Past Performance Assessment: The final past performance rating of a contract should not be a cumulative report of contract performance but rather a snapshot of the last period of performance since the last annual performance report

Contract Value for PPI Collection: The contract thresholds for PPI collection apply to the "as-modified" face value of contracts; that is, if a contract's original face value was less than the applicable threshold, but subsequently the contract was modified and the "new" face value is greater than the threshold, then a performance assessment (or assessments) should be made, starting with the first anniversary that the contract's face value exceeded the threshold. If the contract threshold is expected to exceed the collection threshold by exercise of option, modification or order it may be advisable to initiate the PPI collection process prior to the value of the contract exceeding the threshold.

Implementation Milestones

November 1997	IPT/DUSD(AR) initiates development of core training materials for use by the components for key business sectors
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January 30, 1998	IPT briefs USD(A&T) including status of automation pilot effort
February 1, 1998	Begin collection of PPI for Systems, Services and Information Technology business sectors using defined assessment elements and ratings. Begin collection of Operations Support PPI over \$5M. Collection should be either manual or through an existing automated system.
March 30, 1998	IPT presents a recommendation to USD(A&T) for a coordinated automated architecture including results of pilot effort.
November 30, 1998	IPT gathers lessons learned, recommends policy changes to USD(A&T) and develops a comprehensive past performance policy for DoD
January 1, 1999	Establish the date for expanded collection of PPI including passive collection using coordinated automated architecture